

The minor clerical errors noted in the audit do not support enforcement action. The standard of compliance is not and cannot be perfection. Verizon has implemented procedures and controls designed to produce substantial compliance with the Commission's rules. The few items noted by the commenters do not demonstrate any violations of the Commission's rules, much less knowing or willful violations.

Conclusion

The audit confirms that fact that Verizon has complied with the Commission's section 272 safeguards. The Commission should reject the criticisms of Verizon's conduct and of the scope and conduct of the section 272 audit.

Of Counsel
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Respectfully submitted,

By: 

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Dated: June 10, 2002

THE VERIZON TELEPHONE COMPANIES

The Verizon telephone companies are the local exchange carriers affiliated with Verizon Communications Inc. These are:

Contel of the South, Inc. d/b/a Verizon Mid-States
GTE Midwest Incorporated d/b/a Verizon Midwest
GTE Southwest Incorporated d/b/a Verizon Southwest
The Micronesian Telecommunications Corporation
Verizon California Inc.
Verizon Delaware Inc.
Verizon Florida Inc.
Verizon Hawaii Inc.
Verizon Maryland Inc.
Verizon New England Inc.
Verizon New Jersey Inc.
Verizon New York Inc.
Verizon North Inc.
Verizon Northwest Inc.
Verizon Pennsylvania Inc.
Verizon South Inc.
Verizon Virginia Inc.
Verizon Washington, DC Inc.
Verizon West Coast Inc.
Verizon West Virginia Inc.

October 4, 2000

To: All Interexchange Carriers

SUBJECT: NOTIFICATION OF DAILY "BLACKOUT ACTIVITY" FOR SWITCH ACTIVITY

Dear Customer,

We at Verizon have learned of some scheduling information related to our switches and the jobs that interface with our switches that could have an impact on your PIC processing intervals. Each night, there is what is termed a "blackout period" for switch activity. This is a down time that is scheduled in each of the switches and the XEA jobs that interface with them to have an opportunity for daily maintenance and monitoring.

In response to this information, you may decide to alter your file submission schedules or you may determine that this information serves only as an FYI and that there is no need to alter your current schedules. The periods of time included in the blackout period varies slightly in the North and the South and on weekends. They are as follows:

In reference to Switch Manager's interface to MARCH only our times are:

North:

MARCH NY from 04:00 to 23:30 Sun - Sat.

MARCH NE from 04:00 to 22:30 Mon - Fri

from 04:00 to 21:30 Sat

from 04:00 to 19:30 Sun

South:

All MARCH systems from 04:00 to 22:50 Sun - Sat

MARCH's Down times are:

CP0 & CP1: Down 01:00 - 02:30 Sunday
Down 23:00 - 00:30 Mon - Sat

NJ0: Down 01:00 - 02:30 Sun - Sat

PA0: Down 01:00 - 02:30 Sunday
Down 00:00 - 01:30 Mon - Sat

NE: Down 23:00 - 00:00 Mon - Fri
Down 22:00 - 00:00 Sat
Down 20:00 - 00:00 Sun

NY: Down 00:00 - 02:00 Mon - Sun

This notification serves as an informational tool that you may or may not determine requires any action on your part. The schedules for the blackout period have been in place for years and is currently factored into your current intervals. XEA currently pulls the files in and during the blackout period, the files are held in que according to the time that they were sent in and released as the switches are opened up for processing each day.

ATTACHMENT B

Altering your schedules for file submission to avoid sending them during the blackout periods could shorten the processing time for your CARE files, if you are currently submitting files during those timeframes. If not, there is no need to consider any changes.

Any question that you may have concerning this notification may be directed to your Verizon PIC Interface Manager.

Sincerely,

Brenda A. Spriggs
PIC Process Owner
Verizon

**General Standard Procedures for Biennial Audits Required Under Section 272 of the
Communications Act of 1934, as Amended**

**JOINT FEDERAL/STATE OVERSIGHT TEAM
FOR
VERIZON COMMUNICATIONS**

**GENERAL STANDARD PROCEDURES
FOR
BIENNIAL AUDITS
REQUIRED UNDER SECTION 272
OF THE
COMMUNICATIONS ACT OF 1934, AS AMENDED**

Final Procedures as of June 1, 2003

**JOINT FEDERAL/STATE OVERSIGHT TEAM
FOR
VERIZON COMMUNICATIONS
GENERAL STANDARD PROCEDURES
FOR
BIENNIAL AUDITS
REQUIRED UNDER SECTION 272
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COMMUNICATIONS ACT OF 1934, AS AMENDED**

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VERIZON COMMUNICATIONS BIENNIAL ENGAGEMENT PROCESS

INTRODUCTION

Background

1. Section 272(a) of the Communications Act of 1934, as amended (the Act), requires that a Bell Operating Company (BOC) set up one or more separate affiliates before engaging in manufacturing activities, in-region interLATA services, and interLATA information services. For interLATA information services, this requirement expired on February 8, 2000 in accordance with the Act. Before engaging in the provision of in-region interLATA services, a BOC or an affiliate of the BOC must meet the requirements of Section 271 of the Act and must receive approval by the Federal Communications Commission (FCC). A BOC that is required to operate a separate affiliate under Section 272 must obtain and pay for a joint Federal/State audit every two years.¹

2. The Commission adopted rules to implement the section 272(d) biennial audit requirement. *See Accounting Safeguards Order* at paras. 197-205; *see also* 47 C.F.R. § 53.209-.213. The Commission's Part 53 rules and accompanying orders govern the conduct of the section 272(d) biennial audit. As stated in the Commission's Part 53 rules, the purpose of the section 272(d) biennial audit is to determine whether the BOC and its section 272 affiliates have operated in accordance with the accounting and non-accounting safeguards required by section 272 of the Act and the Commission's rules. 47 C.F.R. § 53.209(b) (listing the specified compliance requirements of the section 272(d) biennial audit). In addition to specifying the audit requirements, the Commission's rules provide for the establishment of a Federal/State joint audit team that is authorized to oversee the conduct of the audit from the planning stage to its completion and to "direct the independent auditor to take any actions necessary to ensure compliance with the audit requirements [in 47 C.F.R. § 53.209(b)]." 47 C.F.R. § 53.209(d). Although the section 272(d) biennial audit is to be conducted by an independent auditor, the Federal/State joint audit team is also responsible for ensuring that the audit meets the objectives stated in the Commission's rules and orders. 47 C.F.R. §§ 53.209(d) (stating that the Federal/State joint audit team is responsible for "overseeing the planning of the audit"); .211(b) (requiring the Federal/State joint audit team to review the audit requirements and authorizing the Federal/State joint audit team to modify the audit program); .211(c) (authorizing the Federal/State joint audit team to approve the audit requirements and program); .211(d). In accordance with Statements on Standards For Attestation Engagements, 10, Paragraph 1.03: "When a practitioner undertakes an attest engagement for the benefit of a government body or agency and agrees to follow specified government standards, guides, procedures, statutes, rules

¹ 47 U.S.C. § 272(d).

and regulations, the practitioner is obliged to follow those governmental requirements as well as applicable attestation standards.”

3. Working pursuant to delegated authority, the Federal/State joint audit team elected to use the Agreed-Upon Procedures (AUP) form of attestation engagement to meet the objectives specified in the Commission’s rules, *i.e.*, to determine whether the BOC and its section 272 affiliates complied with the relevant accounting and non-accounting safeguards. The American Institute of Certified Public Accountants (AICPA) defines an AUP engagement as “one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on subject matter.”² For the purposes of planning this AUP engagement and developing the appropriate audit procedures, the “specified parties” consist of the Federal/State joint audit team (“Oversight Team” or “Joint Oversight Team”) and the company responsible for obtaining and paying for the section 272(d) biennial audits (*i.e.*, Verizon). The Oversight Team will be comprised of members from the FCC and members of the state commissions who have jurisdiction over Verizon in their respective states³ and who have chosen to participate in the Biennial Audit and have either signed a Protective Agreement or the State commission has promulgated a Protective Order.

The Oversight Team is responsible for reviewing the conduct of the engagement and, after having apprised Verizon of their intention, for directing the practitioner to take such action as the team finds necessary to achieve each audit objective. Consistent with section 53.209(d) of the Commission’s rules, the Oversight Team may direct the independent auditor to take any actions necessary to ensure compliance with the audit requirements of sections 53.209(b) as reflected in letters or orders issued by the Bureau staff and served on Verizon. Verizon may, pursuant to section 1.106 or 1.115 of the Commission’s rules, file a petition for reconsideration or application for review of any such direction. The specified parties agree that the independent auditor shall implement the directions of the Oversight Team 10 business days after such direction if Verizon has not filed an Emergency Petition for Reconsideration by that time. The specified parties agree that once the Chief of the Enforcement Bureau acts on any Verizon Emergency Petition for Reconsideration, the independent auditor shall immediately implement the directions of the Chief of the Enforcement Bureau. Verizon may, pursuant to section 1.115 of the Commission’s rules, file an Application for Review of the Chief of the Enforcement Bureau’s decision. The independent auditor shall implement the Chief of the Enforcement Bureau’s directions even if Verizon files an Application for Review of the Chief of the Enforcement Bureau’s decision. Should the Bureau or Commission change such direction on reconsideration or review, the independent auditor shall follow the changed direction. The text below provides the requirements for the engagement as listed in Section 53.209(b) of the FCC

² Statement on Standards for Attestation Engagements (SSAE) 10, paragraph 2.03, published by the American Institute of Certified Public Accountants.

³ Connecticut, District of Columbia, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, Virginia, and West Virginia.

rules and indicates the nature, timing, and extent of the AUP for each requirement. It should be noted that AUP engagements are not based on the concept of materiality, therefore, the practitioner must report all results in the form of findings from application of the agreed upon procedures.

COMPLIANCE REQUIREMENTS

4. The requirements that will be covered in the Biennial Audit are contained in 47 U.S.C. Section 272(b), (c), and (e) of the Communications Act of 1934, as amended, and in 47 C.F.R. Section 53.209(b) of the FCC rules and regulations. Below is a listing of those requirements:

Structural Requirements

The separate affiliate required under Section 272 of the Act:

- I. Shall operate independently from the Bell operating company;
- II. Shall maintain books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company;
- III. Shall have officers, directors, and employees that are separate from those of the Bell operating company;
- IV. May not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company;

Accounting Requirements

The separate affiliate required under Section 272 of the Act:

- V. Shall conduct all transactions with the Bell operating company on an arm's length basis with the transactions reduced to writing and available for public inspection.

The Bell operating company:

- VI. Shall account for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

Nondiscrimination Requirements

The Bell operating company:

- VII. May not discriminate between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards;
- VIII. Shall fulfill any requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates;
- IX. Shall not provide any facilities, services, or information concerning its provision of exchange access to the Section 272 affiliate unless such facilities, services, or information are made available to other providers of interLATA services in that market on the same terms and conditions;
- X. Shall charge its separate affiliate under Section 272, or impute to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service;
- XI. May provide any interLATA or intraLATA facilities or services to its interLATA affiliate if such services or facilities are made available to all carriers at the same rates and on the same terms and conditions, and so long as the costs are appropriately allocated.

Related FCC Dockets

5. These requirements have been clarified and expanded upon in several FCC proceedings. These proceedings are subject to further modification in subsequent FCC orders, or in orders on reconsideration. Below is a list of FCC orders related to the above requirements:

CC Docket No. 96-149, In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended; *First Report and Order and Further Notice of Proposed Rulemaking*; Released December 24, 1996. Other releases under this docket were issued on February 19, 1997; June 24, 1997; June 10, 1998; September 3, 1999; April 27, 2001.

CC Docket No. 96-150, In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996; *Report and Order*; Released December 24, 1996. Another release under this docket was issued on

June 30, 1999.

CC Docket No. 96-98, In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; *First Report and Order*; Released August 8, 1996 (First Interconnection Order); *Second Report and Order and Memorandum Opinion and Order*; Released August 8, 1996 (Second Interconnection Order)

CC Docket No. 96-115, In the Matter of Implementation of the Telecommunications Act of 1996: Telecommunications Carriers' Use of Customer Proprietary Network Information and Other Customer Information; *Second Report and Order and Further Notice of Proposed Rulemaking*; Released February 26, 1998

CC Docket No. 00-199, In the Matter of 2000 Biennial Regulatory Review -- Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2; *Report and Order and Further Notice of Proposed Rulemaking*; Released November 5, 2001

6. In addition, the following pending FCC dockets may, if applicable to the activities of the BOC, result in additional regulations surrounding the Nondiscriminatory Requirements:

Notice of Proposed Rulemaking, FCC 01-339, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-321 Performance Measurements and Standards for Interstate Special Access Services; CC Docket No. 96-149 Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended; RM 10329 AT&T Corp. Petition to Establish Performance Standards, Reporting Requirements, and Self-Executing Remedies Need to Ensure Compliance by ILECs with Their Statutory Obligations Regarding Special Access Services.

Notice of Proposed Rulemaking, FCC 01-331, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-318 Performance Measurements and Standards for Unbundled Network Elements and Interconnection; CC Docket No. 98-56 Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance.

The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to Section 272 relationships and to the extent in effect during the 2001/2002 engagement period.

Accounting Safeguards Under the Telecommunications Act of 1996: Section 272(d) Biennial Audit Procedures, CC Docket No. 96-150, Memorandum Opinion and Order, FCC 02-01 (rel. Jan. 10, 2002).

ENGAGEMENT PLAN

Engagement Period

7. The AUP engagement shall cover 24 months of operations beginning January 3, 2001 and ending January 2, 2003 for all states where Verizon has obtained authority to provide in-region interLATA services. For all of the Verizon 272 affiliates the engagement will also cover all assets added since the last audit. The biennial audit will cover all services for which a separate affiliate is required under Section 272(a)(2) and includes all BOCs within the Region and ILECs providing services to the Section 272 affiliates. The Audit Test Period will be from January 3, 2001 through September 30, 2002, except where noted.

Sampling

8. Certain audit procedures may require testing on a sample basis. The sample sizes and sampling methodologies to be used in performing such audit procedures shall be determined after the initial survey and/or during the performance of the audit of the Section 272 affiliate. Such determinations shall be made jointly by the practitioner and users. During this process, the practitioner shall obtain detailed listings or lists (representing the population of potential items to be tested) for each procedure. For those procedures requiring statistical sampling, the practitioner shall develop detailed statistical parameters that include the total number of items in the universe, the number of items sampled, method of selection. Where the users and practitioner indicate, and when appropriate, the practitioner shall select a statistically valid sample using random and stratified sampling techniques with the following parameters: a desired confidence level equal to 95%; a desired upper precision limit equal to 5%; and an expected error rate of 1%. Taking under consideration cost versus benefit to be derived, the Oversight Team shall approve the sampling plan, after consulting with Verizon, when reviewing the detailed procedures written by the practitioner and/or during the execution of the procedures.

9. Generally, the practitioner should consider all data and information falling within the engagement period; however, unless otherwise stated in this document or accepted by the Oversight Team, the practitioner should obtain data and information as of the latest period available during the engagement period. For procedures requiring sampling sizes to be based on information available as of or for the end of the twenty-first month, the practitioner will utilize September 30 as the relevant date, unless otherwise noted. In addition, to the extent that the companies' processes and procedures change between the time of execution of these procedures and the end of the engagement period, the practitioner has an obligation to test these changes to ensure continued compliance with the Section 272 requirements.

Definitions

10. *BOC* If the BOC transfers or assigns to an affiliated entity ownership of any network elements that must be provided on an unbundled basis pursuant to Section 251(c)(3), such entity shall be subject to all of the requirements of the BOC. For purposes of this engagement, in the event that the BOC provides exchange and/or exchange access services on a retail or wholesale basis exclusively through one or more of its subsidiaries or affiliates, or through one or more other subsidiaries, divisions, etc., of the parent Regional Holding Company, and the same services cannot be purchased directly from the BOC, then these entities shall also be subject to all of the relevant nondiscriminatory requirements of Objectives VII through XI of this document. Affiliates that merely resell the BOC's exchange services and/or exchange access services or lease unbundled elements from the BOC, or engage in permissible joint marketing activities (see Section 272(g)(1) of the Act), shall be excluded from these requirements.

11. *Verizon BOC* For the purposes of this engagement, the term "Verizon BOC" includes the following former Bell Atlantic telephone operating companies; Verizon New York, Inc., Verizon New England, Inc., Verizon – Washington, D.C., Inc., Verizon – Maryland, Inc., Verizon – Virginia, Inc., Verizon – West Virginia, Inc., Verizon – New Jersey, Inc., Verizon – Pennsylvania, Inc., Verizon – Delaware, Inc. and any successor or assign of such company as described in ¶10. The term "BOC", for purposes of this engagement does not include the former GTE telephone operating companies listed below; they shall be termed "ILECs".

The term "ILEC" (Incumbent Local Exchange Carrier) includes the following former GTE telephone companies; Verizon California, Inc., Verizon Florida, Inc., Verizon Hawaii, Inc., Verizon Mid-States (Contel of the South, Inc.), Verizon Midwest (GTE Midwest, Inc.), Verizon North, Inc., Verizon Northwest, Inc., Verizon South, Inc., Verizon Southwest (GTE Southwest, Inc.), Verizon West Coast, Inc., Puerto Rico Telephone Company and The Micronesian Telecommunications Corp, and any successor or assign of such company as described in ¶10.

In addition, for the purpose of this engagement, Verizon Advanced Data Inc. (VADI) and VADI Virginia are to be treated as ILECs after the September 26, 2001 order, *Bell Atlantic/GTE Merger*, 16 FCC Rcd 16915 (2001).

12. *Affiliate* The term "affiliate" shall refer to a person that (directly or indirectly) owns or controls, is owned or controlled by, or is under common ownership or control with, another person. For this purpose, the term "own" means to own an equity interest (or the equivalent thereof) of more than 10 percent. (See Section 3 of the Communications Act of 1934, as amended.)

13. Verizon Section 272 Affiliate The audit procedures are required to be performed, unless otherwise specified, on all Section 272 affiliates as defined by the Act. For the purposes of this engagement, the term "separate affiliate" or "Section 272 affiliate" includes the following companies: Bell Atlantic Communications, Inc. (d/b/a/ Verizon Long Distance); NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions); Verizon Global Networks, Inc., Verizon Global Solutions, Inc.; and Telecom New Zealand USA Limited (TNZ USA). It also includes the following 272 affiliates resulting from the Bell Atlantic/GTE merger: Verizon Select Services Inc. (VSSI) (formerly GTE Communications Corp.); Codetel International Communications Inc. (CICI); TELUS Communications Inc. (TCI); TELUS Communications (Quebec) Inc. (QUE); and Compania Anonima Nacional Telefonos de Venezuela (CANTV); and any other affiliate that originates InterLATA telecommunications services in the Verizon region that is subject to Section 272 separation requirements; and any affiliate that engages in manufacturing activities as defined in Section 273(h).

14. Official Services Official Services mean those services permitted by the United States District Court for the District of Columbia in *United States v. Western Electric Co. Inc.* See 569 F. Supp. 1057, 1098, n.179 (1983) (defined as "communications between personnel or equipment of an Operating Company located in various areas and communications between Operating Companies and their customers"), and its progeny.

15. Obtain For purposes of this engagement, the term "obtain" as referred to in the procedures contained herein, shall mean that the practitioner will physically acquire, and generally retain in the working papers, all documents supporting the work effort performed to adequately satisfy the requirements of a procedure. The practitioner, in their professional judgement, shall decide which items are too voluminous to include in the working papers. The practitioner shall include a narrative description of the size of such items as well as any other reasons for their decision not to include them in the working papers.

Conditions of Engagement

16. The practitioner leading this engagement shall be a licensed CPA. The practitioner's team performing the engagement shall be familiar with the standards established for an agreed-upon procedures engagement, the requirements for the Biennial Audit, and its objectives. The team performing the engagement shall also be independent as defined in the Statements on Standards for Attestation Engagements (SSAE 10, paragraphs 1.35-1.38). All members of the team performing the engagement shall have a sufficient general understanding of the relevant information contained in the following documents:

- Sections 271 and 272 of the Communications Act of 1934, as Amended;
- Section 32.27, Transactions with Affiliates, of the FCC's Uniform System of Accounts for Telecommunications Companies (USOA);

- The relevant orders and rules from the following FCC Dockets:
 - a. CC Docket No. 86-111 dealing with the allocation of joint costs between the regulated and nonregulated activities of the telephone company;
 - b. CC Docket No. 96-149 dealing with the implementation of the non-accounting safeguards of Sections 271 and 272 of the Act;
 - c. CC Docket No. 96-150 dealing with the implementation of the accounting safeguards of Sections 271 and 272 of the Act;
 - d. CC Docket No. 96-98 dealing with the implementation of the local competition provisions of the Act (the interconnection orders);
 - e. CC Docket No. 96-115 dealing with the use of customer proprietary network information;
 - f. Notice of Proposed Rulemaking, FCC 01-339, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-321 Performance Measurements and Standards for Interstate Special Access Services; CC Docket No. 96-149 Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended; RM 10329 AT&T Corp. Petition to Establish Performance Standards, Reporting Requirements, and Self-Executing Remedies Need to Ensure Compliance by ILECs with Their Statutory Obligations Regarding Special Access Services. The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to Section 272 relationships and to the extent in effect during the 2001/2002 engagement period.
 - g. Notice of Proposed Rulemaking, FCC 01-331, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-318 Performance Measurements and Standards for Unbundled Network Elements and Interconnection; CC Docket No. 98-56 Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance. The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to Section 272 relationships and to the extent in effect during the 2001/2002 engagement period.
- Verizon's Section 271 application(s) and related FCC approval(s);

- Orders issued by state commissions approving interconnection agreements that are covered in the scope of the engagement;
- Petitions for arbitration with the BOC for those agreements tested within the engagement.

17. In addition, to the extent the practitioner determines procedures included in this plan cannot be performed, the practitioner will propose alternate procedures to the Oversight Team, as appropriate. The practitioner will inform the Oversight Team if the practitioner determines it is necessary to modify the agreed upon procedures or the scope of the engagement, in order to provide the users with all of the information needed to determine compliance with the various requirements. The practitioner shall include any additional hours and fees that would result from revisions of the procedures or of the scope of the engagement. After the practitioner informs the Oversight Team of any revisions to the final audit program or to the scope of the audit, the Oversight Team shall inform Verizon about these revisions. These revisions will be subject to the procedures described in paragraph 3 above.

18. The practitioner may use the services of a specialist for assistance in highly technical areas. The practitioner and the users shall explicitly agree to the involvement of any specialist to assist in the performance of the engagement. The specialist shall not be affiliated in any form with Verizon.

19. The practitioner's use of internal auditors shall be limited to the provision of general assistance and the preparation of schedules and gathering of data for use in the engagement. Under no circumstances shall the internal auditors perform any of the procedures contained in this document. All the procedures in this document shall be performed by the practitioner.

20. The practitioner shall not use or rely on any of the procedures performed during any of the Verizon BOC/ILEC cost allocation manual (CAM) audits to satisfy any of the requirements in Objectives V/VI.

Representation Letters

21. The practitioner shall obtain three types of representation (assertion) letters. The first type of representation letter shall address all items of an operational nature (see para. 22). The second type of representation letter shall address all items of a financial nature (see para. 23). The third type of representation letter shall state that all Section 272 affiliates have been disclosed (see para. 24). The following paragraphs detail the contents of each type of representation letter.

22. The representation letters related to operations issues shall be signed by the Chief Operating Officer or the equivalent of the Verizon BOC/ILEC and each Section 272 affiliate and shall include the following:

a. acknowledgement of management responsibility for complying with specified requirements;

b. acknowledgement of management responsibility for establishing and maintaining an effective internal control structure over compliance;

c. statement that Verizon has performed an internal evaluation of its compliance with the specified requirements;

d. statement that management has disclosed or will disclose to the practitioner all known noncompliance occurring up to the date of the draft report;

e. statement that management has made available all documentation related to compliance with the specified requirements;

f. statement that management has disclosed all written communications from regulatory agencies, internal auditors, external auditors, and other practitioners, and any written formal or informal complaints to regulatory agencies from competitors, concerning possible noncompliance with the specified requirements, including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report;

g. statements that: each Section 272 affiliate operates independently from the Verizon BOC/ILEC; no Verizon BOC/ILEC owns any facilities jointly with the Section 272 affiliate; no Verizon BOC/ILEC, or other affiliates other than the Section 272 affiliate itself, provides any operations, installation, and maintenance functions over the facilities owned by the Section 272 affiliate, or leased by the Section 272 affiliate from unaffiliated entities; no 272 affiliate provides any operations, installation, and maintenance functions over the BOC/ILEC's facilities; and no Verizon BOC/ILEC is providing and did not provide any research and development that is a part of manufacturing on behalf of the Section 272 affiliate pursuant to Section 272(a);

h. statement that each Section 272 affiliate has separate officers, directors, and employees from those of any Verizon BOC/ILEC;

i. statement that no Verizon BOC discriminated between itself or the Section 272 affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards (on the Verizon BOC's representation letter only);

j. statement that the Verizon BOC/ILEC subject to Section 251(c) of the Act has fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates (on the Verizon BOC representation letter only);

k. statement that the Verizon BOC/ILEC subject to Section 251(c) of the Act has made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has made available to its Section 272 affiliate that operates in the same market (on the Verizon BOC/ILEC's representation letter only).

23. The representation letters related to financial issues shall be signed by the Chief Financial Officer or the equivalent of each Verizon BOC/ILEC and each Section 272 affiliate and shall include the following:

a. statement that each Section 272 affiliate maintains separate books, records, and accounts from those of the Verizon BOC/ILEC and that such separate books, records, and accounts are maintained in accordance with GAAP;

b. statement that each Section 272 affiliate has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Verizon BOC/ILEC;

c. statement that management has identified to the practitioner all assets transferred or sold since the last audit, and services rendered: (i) by the Verizon BOC/ILEC to each Section 272 affiliate; and (ii) by each Section 272 affiliate to the Verizon BOC/ILEC; and that these transactions have been accounted for in the required manner;

d. statement that the Verizon BOC/ILEC subject to Section 251(c) of the Act has charged its Section 272 affiliate, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service (on the Verizon BOC/ILEC's representation letter only);

e. statement that, if the Verizon BOC/ILEC and an affiliate subject to Section 251(c) of the Act make available and/or have provided any interLATA facilities or services to its interLATA affiliate, such facilities or services are made available to all carriers at the same rates and on the same terms and conditions, and the associated costs are appropriately allocated (on the Verizon BOC/ILEC's representation letter only);

f. statement that management has not changed any of the Verizon BOC/ILEC processes or procedures (as they relate to transactions of any kind with the Section 272 affiliate) and that these procedures and processes have continued to be implemented on a consistent basis, since the execution of these agreed-upon procedures without apprising the practitioner, before the date of the draft report (on the Verizon BOC/ILEC's representation letter only).

24. The representation letter related to the disclosure of all Section 272 affiliates shall be signed by the Chief Financial Officer of Verizon and shall state that each Section 272 affiliate has been identified, accounted for in the required manner, and disclosed in the required manner.

Engagement Process

25. The General Standard Procedures, which were drafted through the cooperative efforts of Federal and State Regulators and various industry groups, are intended to provide general areas of audit work coverage and uniformity of audit work among all regions, to the extent possible, considering state regulatory and corporate differences. The standards identified throughout this document are not legal interpretations of any rules or regulations. To the extent that these standards conflict with any FCC rules and regulations, the FCC rules and regulations govern. Accordingly, by agreeing to these procedures, neither the FCC nor Verizon concede any legal issue or waive any right to raise any legal issue concerning the matters addressed in these procedures.

26. The General Standard Procedures shall be used by Verizon as a guide for drafting the preliminary audit requirements, including the proposed scope of the audit, as prescribed in Section 53.211(a) and (b) of the Commission's rules. Under these rules, Verizon shall submit the preliminary audit requirements, including the proposed scope and extent of testing, to the Oversight Team before engaging an independent accounting firm to conduct the Biennial Audit. The Oversight Team shall then have 30 days to review the preliminary audit requirements to determine whether they are adequate to meet the audit requirements in Section 53.209 of the Commission's rules and "determine any modifications that shall be incorporated into the final audit requirements" (Section 53.211(b)). The preliminary audit requirements and scope of the audit shall be similar to the General Standard Procedures and shall cover all the areas described in that model. Verizon shall not engage any practitioner who has been instrumental during the past two years in designing any of the systems under review in the Biennial Audit. After Verizon has engaged a practitioner to perform the Biennial Audit, the process for drafting detailed procedures shall proceed as follows:

- The Oversight Team and the practitioner shall perform a joint survey of the Section 272 affiliate and the relevant Verizon BOC/ILEC. The Oversight Team and the practitioner shall coordinate with Verizon to determine the nature, timing and extent of this survey at a mutually agreeable time and location. The survey shall provide the practitioner and the

Oversight Team with an overview of the company's structure and policies and procedures such as record keeping processes, the extent of affiliate transactions, and Verizon BOC/ILEC procedures for processing orders for services received from affiliates, unaffiliated entities, and its own end-user customers. The survey shall be conducted between four to six months before the end of the period to be covered by this engagement.

- The practitioner shall develop a detailed audit program based on the final audit requirements and submit it for review to the Oversight Team (Section 53.211(d)).
- The Oversight Team shall have 30 days to review the detailed procedures for consistency and adequacy of audit coverage and shall provide to the practitioner any modifications that shall be incorporated into the final audit program (Section 53.211(d)).

27. Access to all information during the section 272(d) biennial audit shall be restricted to: (a) FCC staff members; (b) state commission staff members where the state commission by statute protects company proprietary data; (c) state commission staff members who have signed a protective agreement with Verizon; (d) state commission staff members of any participating state that has confidentiality procedures in effect covering all staff and that requires the Chairman or designee to sign the protective agreement on behalf of the entire commission including commission staff; and (e) state commission staff members who have not signed the protective agreement, but that Verizon does not object to provide oral or written information, provided that they do not take possession of such information.

28. The detailed examination of transactions shall begin at such time as the practitioner deems appropriate to complete the engagement in accordance with the time schedule set forth in Section 53.211 and Section 53.213 of the Commission's rules.

29. During the conduct of this engagement, and until issuance of the final report to the Commissions, the practitioner shall schedule monthly meetings with the Oversight Team and, at the discretion of the practitioner and the Oversight Team, with Verizon, to discuss the progress of the engagement. The practitioner shall inform the Oversight Team well in advance, but not less than 10 days, of plans to meet with representatives of Verizon for the following reasons: to discuss plans and procedures for the engagement; to survey Verizon operations; to review Verizon procedures for maintaining books, records, and accounts; and to discuss problems encountered during the engagement. It shall not be necessary for the practitioner to inform the Oversight Team of meetings with the client to ask for clarification or explanation of certain items, explore what other records exist, or request data. The practitioner shall immediately inform in writing the Oversight Team of any deviation from, or revisions to, the final detailed audit procedures and provide explanations for such actions. The practitioner shall submit to the Chief, Enforcement Bureau, and shall copy the Oversight Team and, at the practitioner's discretion, Verizon, any rule interpretation necessary to complete the engagement. The practitioner shall advise the Oversight Team of the need for additional time to complete the

engagement in the event that the Oversight Team requests additional procedures (see 30c. below). Finally, the practitioner shall immediately inform in writing the Oversight Team of any failure by Verizon to respond to requests for information during the engagement.

Timetables

30. In order to complete the engagement in a timely manner, the following time schedule for completion of certain tasks is provided:

a. Within 60 days after the end of the engagement period, but prior to discussing the findings with Verizon, the practitioner shall submit a draft of the report to the Oversight Team for all procedures, except that the data for Objective VIII, procedure 4, shall include only the initial 21 months of the 24-month engagement period for all services other than feature group D. Within 90 days from the end of the engagement period, the practitioner shall submit a supplemental draft of the report that will include all of the information required by Objective VIII, procedure 4, including feature group D.

b. The Oversight Team shall have 45 days to review the findings and working papers and offer its recommendations, comments, and exceptions concerning the conduct of the engagement to the practitioner. The exceptions of the Oversight Team to the findings and conclusions of the practitioner that remain unresolved shall be included in the final report.

c. If the Oversight Team requests additional procedures, the practitioner shall advise the Oversight Team and Verizon of any need for additional time to perform such procedures. Otherwise, within 15 days after receiving the Oversight Team's recommendations and making the appropriate revisions, the practitioner shall submit the report to Verizon for its comments on the findings, and to the Oversight Team.

d. Within 30 days after receiving the report, Verizon will comment on the findings and send a copy of its comments to both the practitioner and the Oversight Team. Verizon will also provide the practitioner and the Oversight Team notification of all items contained in the draft report, which Verizon contends to be confidential. The BOC's response shall be included as part of the final report.

e. Within 10 days after receiving Verizon's comments, the practitioner may respond to Verizon's comments and shall make available for public inspection the final report by filing it with the regulatory agencies having jurisdiction over Verizon. The final report shall contain the procedures employed with the related findings, the Oversight Team's comments, Verizon's comments, the practitioner's reply comments, and a copy of these procedures as executed.